
Manitoba



**Annual Report
1990 - 91**

**Milk Prices
Review
Commission**



Minister of Agriculture

Room 165
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

To His Honour,
George Johnson,
Lieutenant Governor for
the Province of Manitoba

Your Honour:

I have the honour to present herewith the Annual Report of The
Manitoba Milk Prices Review Commission for the year ended
March 31, 1991.

Yours respectfully,

Glen Findlay
Glen M. Findlay
Minister



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MANITOBA MILK PRICES REVIEW COMMISSION
903 — 401 YORK AVENUE
WINNIPEG, MANITOBA
R3C 0P8

The Honourable G. Findlay
Minister of Agriculture
Province of Manitoba
R3C 0V8

Dear Sir:

Pursuant to the requirements of Section 7, subsection (1) of The Milk Prices Review Act, it is my pleasure to present to you the Annual Report of the Manitoba Milk Prices Review Commission for the year ended March 31, 1991.

Respectfully submitted,

Daryl F. Kraft
Chairman

DFK/rab



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MEMBERS OF THE

MANITOBA MILK PRICES REVIEW COMMISSION

as at March 31, 1991

Dr. Daryl Kraft	Chairman, Winnipeg
Mr. Omer Van Wallegghem	Vice-Chairman, Winnipeg
Ms. Lee Anderson	Member, Winnipeg
Mr. William Cole	Member, Ninette
Mr. John Vis	Member, Oak Bluff

The above-noted Members were appointed to the Commission effective August 17, 1988 by Order-in-Council 984/88.

Mr. Adrian Strutinsky	Executive Secretary
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INTRODUCTION

The Milk Prices Review Act governs the activities of the Commission. Responsibilities of the Commission under the Act include the development and maintenance of a producer cost of production formula as the basis for fixing prices at all levels in the fluid milk industry, the authority to establish the producer price and fluid butterfat differential for fluid milk and, as deemed necessary, the maximum and/or minimum prices for milk sold to retailers and consumers.

Since May 1, 1989, the Commission has maintained a pricing policy which, in addition to establishing the producer price and butterfat differential for fluid milk, includes maximum wholesale and retail controls. Maximum wholesale and retail price adjustments are generated by a cost of processing/retailing model, specifically developed for this purpose.

The Commission in 1990/91 maintained extensive dialogue with all sectors of the fluid milk industry in Manitoba and maintained contact with similar authorities and agencies in other jurisdictions. Future contact with the industry at large is viewed as vital by the Commission.

PRODUCER MATTERS

1. PRODUCER PRICE CHANGE

As prescribed by subsection 3(3) of the Act, the Commission continued to monitor the results of the cost of production formula on a monthly basis. As reflected in the monthly updates, decreasing feed and bedding costs during 1990, which constitute about 30 per cent of producers' total costs, were more than balanced by the effects of two years of inflation on the remaining 70 per cent of costs, such as general operating expenses, labour, interest rates, etc. (The producer price was last adjusted in December, 1988.) As a result, effective December 3, 1990, the producer price was increased \$1.51/Hl to \$58.82/Hl, from the former price of \$57.31/Hl, in Manitoba Regulation 248/90.

The Commission also updated the formula used to determine the fluid butterfat differential. In addition to the new producer price, Manitoba Regulation 248/90 implemented the revised differential of \$0.55 per 0.1 kg of butterfat above/below the standard test of 3.6 kg of butterfat per hectolitre of raw product. The previous differential, \$0.52 per 0.1 kg, had been established in January, 1987. The differential represents the extra payment or deduction assessed producers based on the butterfat content of raw product shipped if above or below the provincial standard for butterfat content.

2. APPEAL AGAINST FLUID BUTTERFAT DIFFERENTIAL

In late December, 1990, the Dairy Manufacturers' Association of Manitoba appealed the increased fluid butterfat differential as previously described, under subsection 3(8) of the Act. Initial discussions were held with those sectors of the industry most affected by the differential, i.e. fluid processors through the Manufacturers' Association and The Manitoba Milk Producers' Marketing Board, and the Commission made such inquiries as it deemed necessary to fully and properly examine all aspects of the appeal.

By the end of 1990/91, the Commission had not fully concluded its investigation. Therefore, consideration of the appeal remained outstanding.

3. PRODUCER COST OF PRODUCTION

The second of a two stage review of the cost of production formula was initiated during 1990/91. A private consultant, Mr. David Petkau of Winnipeg, was retained by the Commission to review the appropriateness of the current formula.

The consultant's terms of reference included the examination of producer price-setting methodologies employed in nearby jurisdictions and the Canadian Dairy Commission, as well as the

Manitoba Milk Producers' Marketing Board's ongoing cost of production study. Recommendations on proposed changes were also to be prepared for the Commission's consideration with the view in mind that Manitoba producers should receive fair and equitable compensation for all legitimate direct, on-farm costs incurred in the production of milk.

The consultant's final report was anticipated to be presented to the Commission early in 1991/92. The first stage of the review process, which dealt with off-farm, marketing type costs, had been completed and implemented in late 1989.

PROCESSOR, JOBBER AND RETAILER MATTERS

1. WHOLESALE AND RETAIL PRICE ADJUSTMENTS

The Commission's cost of processing and retailing model, in use since May, 1989, was updated on a quarterly basis during 1990/91. An increase in maximum wholesale and retail prices was indicated by the model update incorporating Statistics Canada and Labour Canada cost indices to the second quarter of 1990.

Also impacting on price adjustments and arising from the Commission's continual assessment of the model's appropriateness, were improvements made to the model's price determination capabilities. Many of the model's processing assumptions were

refined while major revisions were made to the model's components which determine net raw product and packaging costs. Improvements to the latter involved the creation of a special cost index to more accurately reflect packaging cost changes incurred by Manitoba fluid processors.

As a result of the incorporation of the most current index values and model improvements, Manitoba Regulation 246/90 increased maximum wholesale prices by 3 cents per litre (rounded), effective December 3, 1990. Wholesale prices were last adjusted in March, 1990. Due to the 1.5 cent per litre (rounded) increase in the producer price being implemented concurrently, Manitoba processors, as a result, realized an increase in their net margins of 1.5 cents per litre (rounded) upon implementation.

The model originally had incorporated a retailing margin of 12 cents per litre, which remained unchanged since the model's inception. The Commission determined, by way of the model, that a 1 cent increase in net retail margins was appropriate.

Therefore, Manitoba Regulation 247/90 increased maximum retail prices by 4 cents per litre. Because 3 cents of this increase was associated with increased producer and wholesale prices, the remaining 1 cent per litre would be realized by retailers, upon implementation.

2. RURAL PRICING

Since 1984, wholesale and retail fluid milk prices have been based upon the distance of each locality to the nearest processing plant. A seven zone pricing system has been used to take transportation and distribution costs into account. Because of the closing in July, 1990 of the Manco Foods (formerly Lakeland Dairies' fluid processing facility in Selkirk), adjustments were required in the rural zones north of Winnipeg. Approximately fifty communities, including Selkirk, were affected by the adjustments implemented on December 3, 1990.

ENFORCEMENT

The Act also provides that the Commission shall monitor and hear complaints related to the price of fluid milk at any industry level and make inquiries and investigations as may be required. During 1990/91, the Commission received 35 milk price complaints, most of which were related to wholesale and retail prices being charged in the marketplace. Eight such complaints required further investigations by Commission personnel. All disputes were resolved without intervention by the Manitoba Justice Department to obtain compliance with existing pricing

regulations. In addition, 59 general milk price inquiries were received by the Commission from a variety of sources.

FUTURE ACTIVITIES - 1991/92

1. MONITOR CURRENT PRICE POLICY

The Commission will continue to closely monitor the effects on the industry of the milk price policy currently in place, with particular reference to industry reaction to the absence of minimum wholesale and retail controls. Key indicators such as prevailing retail and wholesale pricing strategies, sales of fluid milk provincially and regionally as well as variations in market share amongst the province's various retail, processing and distributing operations are under continual review and analysis, as required.

During 1990/91, reasonable pricing strategies were in evidence in both the processing and retailing sectors. The maximum prices set by the Commission are the highest legal price a processor or retailer may charge for milk. Most milk sales, however, occur at prices considerably below the maximum due to competition in the Manitoba milk industry at both the wholesale and retail levels. Raising the maximum prices only reflects the higher costs being incurred by the milk industry. The decreased regulation of the milk market appears to be performing adequately.

2. MAXIMUM WHOLESALE AND RETAIL PRICES

The cost of processing/retailing model will be updated quarterly, as originally designed. Scrutiny of the model's effectiveness will continue with improvements made as deemed necessary and advisable.

3. PRODUCER PRICE

The Commission's comprehensive review of the formula will continue into 1991/92 and it is hoped that the majority of the analysis and consideration of all necessary aspects of on-farm production costs can be completed before the end of the next fiscal year. The cost of production data being generated by The Manitoba Milk Producers' Marketing Board's on-going cost of production on-farm study remains a likely source of future formula material.

4. OTHER

The Commission will continue to respond to all inquiries regarding the price of fluid milk at any industry level.

All industry developments will be monitored and analyzed as required for direct or indirect impact on the Commission's mandate. In particular, the Commission will keep abreast of the evolution of the multiple component pricing concept both in Manitoba and elsewhere in Canada as the dairy industry at large comes to grips with declining butterfat consumption and shifts away from valuation and pricing methodologies which emphasize only butterfat content and worth.

INTERNAL MATTERS

The Manitoba Milk Prices Review Commission met eleven times during the reporting year in the course of performing its duties.

The Commission's daily activities were performed by Adrian W. Strutinsky, serving as Executive Secretary and Jèssie R. Mamaril, Bookkeeper. The Commission's staff are provided by the Economics Branch, Manitoba Agriculture.

The Commission retained Mr. Dirk Blevins, Civil Legal Services, Provincial Department of Justice as legal counsel. The firm of Coopers and Lybrand continued to be retained as financial analysts. The audit of Commission finances was performed by the Provincial Auditor's Office.



Agriculture

Manitoba Milk Prices
Review Commission

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(204) 945-4935
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RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements, and other financial information in the annual report, are the responsibility of management and have been approved by the Commission. The accompanying financial statements were prepared by management in accordance with the accounting principles set out in Note 2 to the financial statements.

Any financial information contained elsewhere in the annual report conforms to these financial statements.

As management is responsible for the integrity of the financial statements, management has established systems of internal control to provide reasonable assurance that assets are properly accounted for and safeguarded from loss.

The external auditors have performed an independent examination of the financial statements of the Commission in accordance with generally accepted auditing standards.

A handwritten signature in dark ink, appearing to read 'A. Strutinsky'.

Adrian W. Strutinsky
Executive Secretary



Manitoba

Office of the Provincial Auditor

THE MILK PRICES REVIEW COMMISSION

**Auditor's Report and Financial Statements
for the year ended March 31, 1991**



**Office of
the Provincial Auditor**

905 - 386 Broadway
Winnipeg, Manitoba, CANADA
R3C 3R6

AUDITOR'S REPORT

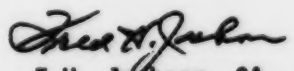
To The Legislative Assembly of Manitoba

We have audited the balance sheet of The Milk Prices Review Commission as at March 31, 1991 and the statement of revenue and expenditure and funds available for future operations for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 1991 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 2 to the financial statements.

Winnipeg, Manitoba
May 29, 1991


F.H. Jackson, CA
Provincial Auditor

THE MANITOBA MILK PRICES REVIEW COMMISSION

Balance Sheet
as at March 31, 1991
(with 1990 figures for comparison)

	<u>1991</u>	<u>1990</u>
ASSETS		
Current Assets:		
Cash	\$ 12,239	\$ 1,176
	<u>\$ 12,239</u>	<u>\$ 1,176</u>
LIABILITIES AND FUNDS AVAILABLE FOR FUTURE OPERATIONS		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 10,462	\$ 3,266
Funds available for future operations (overexpended)	1,777	(2,090)
	<u>\$ 12,239</u>	<u>\$ 1,176</u>

THE MANITOBA MILK PRICES REVIEW COMMISSION

Statement of Revenue and Expenditure and Funds Available
for Future Operations
for the year ended March 31, 1991
(with 1990 figures for comparison)

	1991	1990
Revenue:		
Grant from the Government of the Province of Manitoba	\$ 26,542	\$ 28,578
Interest	39	40
	<u>26,581</u>	<u>28,618</u>
Expenditure:		
Annual report	536	638
Commission - per diem and benefits	4,337	7,397
- travel	2,760	5,235
Office and postage	1,108	2,502
Professional fees	13,386	10,772
Sundry	587	932
Telephone	0	364
	<u>22,714</u>	<u>27,840</u>
Revenue over expenditure	3,867	778
Overexpended, beginning of the year	(2,090)	(2,868)
Funds available for future operations (overexpended), end of year	<u>\$ 1,777</u>	<u>\$ (2,090)</u>

THE MANITOBA MILK PRICES REVIEW COMMISSION

Notes to Financial Statements for the year ended March 31, 1991

1. Nature of the Commission

The Manitoba Milk Prices Review Commission was established under the Manitoba Prices Review Act effective September 29, 1980. The Commission's mandate is to monitor prices of fluid milk, to set the price at which milk may be sold by a producer and if necessary, to set maximum and/or minimum prices at which fluid milk may be sold by a distributor, processor or retailer.

2. Accounting Policies

The Commission uses the accrual basis of accounting except for:

- a) office equipment purchases which are charged to operations in the year of acquisition and
- b) the financial statements do not reflect services provided by the Government of the Province of Manitoba as described in Note 3.

3. Services Provided by the Government of the Province of Manitoba

The Government of the Province of Manitoba provides staffing and office accommodations to the Commission at no charge. The estimated cost of these services is \$76,000 (1990 - \$84,000). In addition the Province used budgeted funds to pay administrative costs totalling \$2,508 (1990 - \$3,848) on behalf of the Commission.

THE MILK PRICES REVIEW ACT
(C.C.S.M. c. M130)

Wholesale Milk Prices Order, amendment

Regulation 246/90
Registered November 23, 1990

Manitoba Regulation 109/89 amended

1 The Wholesale Milk Prices Order, Manitoba Regulation 109/89, is amended by this order.

Clause 3(b) repealed

2 Clause 3(b) is repealed.

Schedule A repealed and substituted

3 Schedule A is repealed and the Schedule to this order is substituted.

Item 2(a) of Schedule B amended

4 Item 2(a) of Schedule B is amended by striking out "or the Selkirk area" and "or Selkirk".

Coming into force

5 This order comes into force on December 3, 1990.

November 16, 1990

MANITOBA MILK PRICES REVIEW COMMISSION:

Daryl F. Kraft
Chairperson

Adrian W. Strutinsky
Secretary

SCHEDULE A
(section 4)

MAXIMUM WHOLESALE PRICES FOR SALES TO PURCHASERS
OTHER THAN JOBBERS AND CONSUMERS

Container Sizes	250 ml	500 ml	1L	2L	4L	20L
Homogenized milk	.35	.57	1.02	2.02	4.01	20.40
2% milk	.33	.55	.97	1.91	3.78	19.24
1% milk	.32	.52	.93	1.82	3.60	18.38
Skim milk	.31	.51	.89	1.75	3.46	17.65
Chocolate milk 2%	.37	.61	1.12	2.20	—	22.10

THE MILK PRICES REVIEW ACT
(C.C.S.M. c. M130)

Retail Milk Prices Order, amendment

Regulation 247/90
Registered November 23, 1990

Manitoba Regulation 110/89 amended

1 The Retail Milk Prices Order, Manitoba Regulation 110/89, is amended by this order.

Clause 3(b) repealed

2 Clause 3(b) is repealed.

Schedule A repealed and substituted

3 Schedule A is repealed and the Schedule to this order is substituted.

Item 2(a) of Schedule B amended

4 Item 2(a) of Schedule B is amended by striking out "or the Selkirk area" and "or Selkirk".

Coming into force

5 This order comes into force on December 3, 1990.

November 16, 1990

MANITOBA MILK PRICES REVIEW COMMISSION:

Daryl F. Kraft
Chairperson

Adrian W. Strutinsky
Secretary

SCHEDULE A
(section 4)

MAXIMUM RETAIL PRICES FOR CLASS I MILK

Container Sizes	250 ml	500 ml	1L	2L	4L
Homogenized milk	.41	.67	1.15	2.28	4.53
2% milk	.40	.64	1.10	2.17	4.30
1% milk	.38	.62	1.06	2.08	4.12
Skim milk	.38	.60	1.02	2.01	3.98
Chocolate milk 2%	.43	.71	1.25	2.46	—

THE MILK PRICES REVIEW ACT
(C.C.S.M. c. M130)

Milk Cost of Production Order, amendment

Regulation 248/90
Registered November 23, 1990

Manitoba Regulation 282/89 amended

1 The Milk Cost of Production Order, Manitoba Regulation 282/89, is amended by this order.

Subsection 2(1) amended

2 Subsection 2(1) is amended by striking out "\$57.31" and substituting "\$58.82".

Subsection 2(2) amended

3 Subsection 2(2) is amended by striking out "52 cents" and substituting "55 cents".

Schedule A repealed and substituted

4 Schedule A is repealed and the Schedule to this order is substituted.

Coming into force

5 This order comes into force on December 3, 1990.

November 16, 1990

MANITOBA MILK PRICES REVIEW COMMISSION:

Daryl F. Kraft
Chairperson

Adrian W. Strutinsky
Secretary

SCHEDULE
(section 1)

Cost of Production Formula

October, 1990, costs per hectolitre.

Operating Expenses	\$ 7.91
Feed and Bedding	16.18
Direct Labour	12.24
Management Fee	4.90
Relief Milker Allowance	.65
Herd Replacement	2.77
Depreciation	4.40
Return on Assets	5.73
	<u>\$54.77</u>

Step 1 - cost of production formula results
\$54.77

Step 2 - add transportation, promotion and other marketing costs
 $\$54.77 + \$3.17 = \$57.94$

Step 3 - add fluid levy
 $\$57.94 + \$.31 = \$58.25$

Step 4 - add component testing costs
 $\$58.25 + \$.07 = \$58.32$

Step 5 - add adjusted fluid requirement (formerly the buffer adjustment)
 $\$58.32 + \$.50 = \$58.82$

Note: Calculations are rounded to the nearest cent per hectolitre and totals may therefore not add exactly.